

# DEFERRED RETIREMENT OPTION PLAN (DROP)

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## Introduction

The Deferred Retirement Option Plan (DROP) became effective June 1, 2002. This voluntary plan will allow members of the Teachers' Retirement System (TRS) to contract with the TRS to defer receipt of their retirement allowance and continue employment for a specific period of time. At the end of DROP participation, the member may withdraw from active service and receive a retirement benefit based on his or her years of service credit at the time of enrollment in DROP plus a lump-sum payment of the amount in their DROP account. Please read this brochure thoroughly and keep it with your other benefit materials. It is a very useful tool when you have questions about DROP.

*The information in this section of the Manual is based on the Code of Alabama 1975, Title 16, Chapter 25, Article 9. This section is not intended as a substitute for the laws of Alabama governing the TRS nor will its interpretation prevail should a conflict arise between its contents and Article 9. Furthermore, the laws summarized here are subject to change by the Alabama Legislature. Do not rely solely upon the information provided in this section to make any decision regarding participation in DROP, but contact the TRS directly with any questions you may have about eligibility or how DROP works. Also consult the new TRS Member Handbook.*

## Requirements for DROP Participation

DROP is an optional program. However, to be eligible to participate in DROP, the member must meet **all** of the following requirements:

1. Have at least 25 years of creditable service exclusive of sick leave (members cannot convert sick leave into creditable service to become DROP eligible)
2. Be at least 55 years of age
3. Be an active contributing member

A member may participate in DROP only one time.

## Election to Participate in DROP

The participation period for DROP is for a minimum of three years, but not more than five years. Once the member has completed the three-year minimum requirement, he or she is eligible to receive either a lump-sum payment or make a direct rollover of the entire account to a qualified plan. A DROP participant may terminate DROP anytime between three years and five years (for example, three years and eight months or four years and three months). The termination date must be the last day of a month. A penalty will result for members who voluntarily terminate employment or withdraw from DROP in the first three years of DROP participation. There is no penalty for involuntary termination,

disability, involuntary transfer of his or her spouse, or death of the participant in the first three years.

## **Applying for Participation in DROP**

A member is eligible to apply to enter DROP whenever he or she meets the requirements for participation. However, the member must have the Application for DROP into the TRS at least 30 days, but not more than 90 days, before the effective date of participation in DROP. Contact the TRS to request the DROP Contract/Application or download the form from our Web site.

## **Entering DROP**

### ***Maximum or Optional Retirement Allowance***

Prior to the beginning of the participation period, the member must select between the Maximum Monthly Benefit or one of the Options the same as if he or she were retiring. After the TRS receives your DROP Application, the TRS will calculate the monthly benefit under the Maximum and Options. The TRS will mail this information and the Retirement Benefit Option Selection – DROP form to you to make your monthly benefit selection. This option selection is an irrevocable, onetime election. If the member does not make this selection, by law he or she will automatically receive the Maximum. This monthly retirement allowance will be paid into the member's DROP account.

### ***Converting Accrued Sick Leave***

Accrued sick leave may not be converted to service credit for the purpose of establishing DROP eligibility, nor used in calculating the monthly retirement allowance upon entering DROP. At the time the member leaves service, the monthly retirement allowance will be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP.

### **Example:**

If a member had 100 days of sick leave upon entering DROP and accrued 20 more sick leave days during DROP, he or she may only convert 100 sick leave days to service credit. If a DROP participant has 100 sick leave days upon entering DROP and used all of his or her sick leave accrued during DROP plus another 20 days of sick leave, the DROP participant may only convert the remaining 80 days of sick leave to service credit.

### ***Service Credit***

The member's service credit will remain the same during DROP participation as when he or she entered DROP. No time spent participating in DROP will be counted as creditable service.

### ***Purchasing Service Credit***

Once a member enters DROP, service credit purchases are prohibited.

### ***Contributions***

Both the employer and the member will continue making contributions to the TRS during the DROP participation period.

## **The DROP Account**

### ***Monthly Retirement Allowance***

The monthly retirement allowance that normally would have been paid to the member as if he or she had retired will be placed in the member's DROP account. There will be no deductions for taxes or health insurance, or Social Security.

### ***Member Contributions***

The five percent member contributions will be placed in the DROP account. Full-time, certified firefighters, correctional officers, and law enforcement officers must contribute six percent.

### ***Interest***

The DROP account will earn interest at the same rate as active member accounts (currently four percent). Interest accruals on member contributions cease at termination of the DROP participation period and are, by law, subject to 20% or 30% forfeiture, depending on the member's years of service. DROP funds not distributed within 90 days of termination of employment cease to accrue interest on monthly benefit deposits.

### ***Retiree Cost-of-Living Adjustments (COLAs)***

A member participating in DROP is not eligible to receive retiree COLAs. A member is not eligible to receive a retiree COLA until he or she has withdrawn from service and has been receiving a retirement allowance for one year.

### ***Active COLAs and Salary Increases***

Participants in DROP may receive active COLAs and salary increases.

### ***Health Insurance***

A member's health insurance benefits (PEEHIP or SEIB) will continue to be provided through the member's employing agency or school system.

### ***Annual and Sick Leave***

Participants in DROP will continue to accrue sick and annual leave.

### ***No Fees***

DROP is not subject to any fees, charges or other similar expenses of any kind.

### ***Employee Rights***

Participation in DROP does not affect the rights of education employees under the Fair Dismissal Act, tenure law, or any other fringe benefit. The election to enter DROP is between the TRS and the member. In no way should it be construed as a guarantee of continued employment for the DROP participation period, nor as a requirement that a participant terminate employment at the end of the DROP participation period. Continued employment and termination of employment are matters between the employer and employee.

### ***Military Leave While Participating in DROPs***

A DROP participant may go on military leave without penalty provided he or she does not terminate employment. The period of military leave is included in the DROP participation period.

## **Withdrawal from DROP**

A DROP Distribution brochure is available on our Web site or you can request one by contacting the TRS.

### ***Completion of Contractual Obligation***

A member who completes his or her contractual obligation in DROP, i.e., participates in DROP between three to five years, may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to an eligible plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the TRS during the DROP participation period plus applicable interest.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP.

The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service. If the member continues employment with an agency participating in the RSA, he or she will not be able to receive distribution until he or she terminates employment.

***Involuntary Termination, Disability, or Involuntary Transfer of Spouse in First Three Years of DROP Participation***

A member who did not fulfill his or her contractual obligation due to involuntary termination, disability, or involuntary transfer of spouse in the first three years of the DROP participation period may elect to receive the following contributions in either a lump sum payment or make a direct rollover to an eligible plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the TRS during the DROP participation period plus applicable interest.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP.

The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

Payments will not be made until the member withdraws from service.

### ***Voluntary Termination within the First Three Years of DROP Participation***

A member who withdraws from service voluntarily within the first three years of DROP will forfeit the DROP contributions based on the monthly retirement allowance paid into his or her account. He or she may elect to receive the following in either a lump-sum payment or make a direct rollover to an eligible plan:

1. Member contributions made to the TRS during the DROP participation period plus applicable interest.
2. Interest attributable to the monthly retirement allowance contributions made to the DROP account during the DROP participation period.

The monthly retirement allowance the retiree will receive after withdrawal from service may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP.

The member is not allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period. Payments will not be made until the member withdraws from service.

### ***Death During DROP Participation***

If the member dies anytime during the DROP participation period and the beneficiary is the spouse, the spouse may elect to receive the following contributions in either a lump-sum payment or make a direct rollover to a qualified plan. Nonspouse beneficiary(s) may receive the following contributions in a lump-sum payment or make a direct rollover to an IRA created for that purpose:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the TRS during the DROP participation period plus applicable interest.

Any retirement benefit based on the retirement option selected by the member at the beginning of the DROP participation period will be paid to the beneficiary(s). The monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP.

The beneficiary is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

A \$15,000 term life insurance benefit will be paid to the beneficiary(s) if the member was employed fulltime. This benefit will be prorated if employment was not full-time.

**No death before retirement benefit will be paid to the estate or beneficiary.**

## **Continued Service after the DROP Participation Period**

If the member does not withdraw from service after completing his or her DROP participation, the member will resume active contributing membership in the TRS for the purpose of earning creditable service. No time spent participating in DROP will be counted as creditable service.

### **Example:**

If a member had 26 years of creditable service upon entering DROP and participated in DROP for five years; then worked two more years after completing his or her contractual obligation in DROP, the member would only have 28 years of total creditable service. There would be two separate retirement allowance calculations; one based on 26 years and the other based on two years of service.

Upon withdrawal from service, the member may elect to receive the following contributions in either a lump-sum distribution or make a direct rollover to an eligible plan:

1. The monthly retirement allowance contributions plus interest (currently four percent). These contributions are based on the retirement option elected upon entering the DROP participation period.
2. Member contributions made to the TRS during the DROP participation period plus applicable interest.

The monthly retirement allowance may be recalculated to include accrued sick leave. However, the number of days converted cannot exceed the number of days the participant had on the date he or she entered DROP.

The member is **not** allowed to change the option for the monthly retirement allowance chosen at the beginning of the DROP participation period.

An additional monthly retirement allowance based on his or her additional service since the end of the DROP participation period will be calculated using the retirement formula (Average Final Salary x Additional Years and Months of Service x 2.0125%). The Average Final Salary will be calculated only on the additional service since the end of DROP participation. **This additional service can in no way be combined with service prior to participation in DROP.** The



retirement option will be the same option used in the original retirement allowance.

If the member dies or becomes disabled during the period of additional service, he or she will be considered as having retired on the date of death or commencement of disability. No death before retirement benefits will be made. However, the \$15,000 Group Term Life Insurance benefit would be payable to beneficiaries of full-time employees.

## **Distribution of DROP Account**

No distribution from a member's DROP account will be made until the member terminates employment. Upon termination, a member should notify the TRS how the member wants to receive the DROP distribution. DROP accounts cease to accrue interest after 90 days from termination of employment. A member generally receives DROP distributions within 30 days of receipt of the final contribution to the DROP account.

DROP participants have one of two ways to distribute the funds in their DROP account:

1. Receive a lump-sum payment of the total DROP account balance less the required 20% federal income tax withholding. No portion of the distribution is subject to state of Alabama income tax.
2. Rollover all or a portion of the account balance to a traditional IRA, another eligible employer retirement plan, a 403(b) Tax Sheltered Annuity, or a governmental 457(b) plan that accepts rollovers. **The RSA-1 Deferred Compensation Plan** (457 plan) accepts rollovers from your DROP account.

A SPECIAL TAX NOTICE REGARDING RSA PAYMENTS is included with all distribution forms. Please read prior to deciding how you want your DROP account distributed. **All of the forms listed in this section are available on our Web site or by contacting the TRS.**

### ***Applying for DROP Distribution - Early Termination***

1. Complete the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION FORM (RSA 10 D-D) required to authorize distribution of the DROP account balance. The election to receive either a lump-sum payment or to make a rollover will be made on this form. If you elect to have a lump-sum payment of your DROP account, the TRS will withhold 20% for federal income taxes. The form must be signed and notarized, but no employer certification is required. If you elect to rollover all or a portion of your DROP account, sign and have the form notarized before

sending it to the Trustee of the eligible retirement plan you have elected to make your rollover to. The Trustee should mail the completed form to the TRS.

2. Complete the REQUEST FOR EARLY TERMINATION OF DROP form (TRS 10 D-E). Indicate the reason for the early termination and complete the federal income tax withholding certificate. Sign and have the form notarized before sending it to your employing agency for them to certify your employment. You and your employer need to complete the PEEHIP Insurance Authorization information on the reverse side of the form.
3. Send both the completed REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form and the REQUEST FOR EARLY TERMINATION OF DROP form to the TRS. If electing a rollover, the Trustee will send the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form to the TRS. Both forms must be completed and returned to the TRS at least 30 days prior to termination of employment, if possible.
4. Supporting documentation must be included with the forms. If the termination is involuntary, submit a copy of the termination letter. If the termination is due to a disability, the DROP participant must complete and submit the REPORT OF DISABILITY PACKET. The STATEMENT OF EXAMINING PHYSICIAN form (also used to apply for a disability retirement) in the REPORT OF DISABILITY PACKET must be signed by the member and completed by his or her attending physician. The medical information will be reviewed by the RSA Medical Board, which will rule on your eligibility. If the termination is due to involuntary transfer of spouse, submit a copy of the transfer letter on company letterhead.

#### ***Applying for DROP Distribution - Participation Period Completed***

1. Complete the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form (RSA 10 D-D) required to authorize distribution of the DROP account balance. The election to receive either a lump-sum payment or to make a rollover will be made on this form. If you elect to have a lump-sum payment of your DROP account, the TRS will withhold 20% for federal income taxes. The form must be signed and notarized, but no employer certification is required. If you elect to rollover all or a portion of your DROP account, sign and have the form notarized before sending it to the Trustee of the eligible retirement plan you have elected to make your rollover to. The Trustee should mail the completed form to the TRS.
2. Complete the REQUEST FOR DROP TERMINATION PARTICIPATION PERIOD COMPLETED form (TRS 10 D-C). Complete the federal income tax withholding certificate. Sign and have the form notarized before sending

it to your employing agency for them to certify your employment. You and your employer will also have to complete the PEEHIP Insurance Authorization information on the reverse side of the form.

3. Send both the completed REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form and the REQUEST FOR DROP TERMINATION PARTICIPATION PERIOD COMPLETED form to the TRS. If electing a rollover, the Trustee will send the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form to the TRS. Both forms must be completed and returned to the TRS at least 30 days prior to termination of employment, if possible.

### ***Applying for DROP Distribution - Death During DROP Participation***

1. The beneficiary must complete the APPLICATION FOR BENEFICIARY PAYMENT - DROP form (RSA-DROP BEN). The beneficiary will complete Part I, Part II, and Part III, sign and have the form notarized. The employer of the deceased member will complete Part IV and send the form to the TRS. A copy of the death certificate must accompany this form.
2. How the DROP account balance is distributed depends on whether the beneficiary is a surviving spouse or not. A non-spousal beneficiary may receive the distribution in a lump-sum payment, or make a direct rollover to an IRA created for that purpose. See Section IV of the SPECIAL TAX NOTICE for tax treatment of non-spousal beneficiaries.

If the beneficiary is a surviving spouse, the surviving spouse may elect to either have the full account balance paid directly to them less the 20% mandatory withholding on taxable portion of payment, or have all or a portion of the account balance rolled over into an eligible retirement plan.

3. If you elect to rollover all or a portion of your DROP account, sign and have the form notarized before sending it to the Trustee of the eligible retirement plan you have elected to make your rollover to. The Trustee should mail the completed form to the TRS.

### ***DROP Participation Period Completed - Will Continue Employment***

Complete the REQUEST FOR DROP TERMINATION PARTICIPATION PERIOD COMPLETED/CONTINUED SERVICE form (RSA 10 D-CCE). Check the box indicating you will be continuing employment after you have completed the DROP participation period. Sign the form and have it notarized. Have your employer certify your employment and have them return the form to the TRS.

Once you terminate employment post-DROP:

1. Complete the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form (RSA 10 D-D) required to authorize distribution of the DROP account balance. The election to receive either a lump-sum payment or to make a rollover will be made on this form. If you elect to have a lump-sum payment of your DROP account, the TRS will withhold 20% for federal income taxes. The form must be signed and notarized, but no employer certification is required. If you elect to rollover all or a portion of your DROP account, sign and have the form notarized before sending it to the Trustee of the eligible retirement plan you have elected to make your rollover into. The Trustee should mail the completed form to the TRS.
2. Complete the TERMINATION OF EMPLOYMENT OF CONTINUED SERVICE - POST DROP form (TRS 10 D-CT). Complete the federal income tax withholding certificate. Sign and have the form notarized before sending it to your employing agency for them to certify your employment. You and your employer will also have to complete the PEEHIP Insurance Authorization information on the reverse side of the form.
3. Send both the completed REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form and the TERMINATION OF CONTINUED SERVICE – POST DROP form to the TRS. If electing a rollover, the Trustee will send the REQUEST FOR DROP DISTRIBUTION AND ROLLOVER ELECTION form to the TRS. Both forms must be completed and returned to the TRS at least 30 days prior to termination of employment, if possible.

## **Reemployment with the RSA after Withdrawal from Service**

Any member who participated in DROP and withdrew from service may become reemployed with either the TRS or ERS. This additional service will be calculated based on Number 4 under Continued Service After the DROP Participation Period.

## **Calculating Your DROP Benefit**

The following is a step-by-step method of calculating your DROP benefit. This is only an estimate. When you are ready to make a decision about entering DROP, contact the TRS for an official estimate. The retirement benefit calculator on our Web site will also calculate the DROP benefit for eligible members.

1. Determine your monthly retirement benefit at the DROP participation date.

Average Final Salary x Years and Months of Service x .020125 ÷ 12 =  
Monthly Retirement Benefit

The Average Final Salary is the average of the highest three annual salaries in the member's last 10 years of creditable service for which the member made contributions.

This formula will only compute the Maximum Monthly Retirement Benefit. For Options 1, 2, or 3, use the benefit calculator on our Web site to determine the monthly retirement benefit.

2. Multiply the monthly retirement benefit times the factor associated with the number of years you elect to participate in DROP to give you the DROP contributions value including interest.

1 year - 12.24  
2 years - 24.97  
3 years - 38.21  
4 years - 51.98  
5 years - 66.30

Determine the value of your contributions, plus interest, made during the DROP participation period.

Multiply the average salary (estimated) during the DROP participation period times the factor for the number of years you elect to participate in DROP.

1 year - .0510  
2 years - .1040  
3 years - .1592  
4 years - .2166  
5 years - .2762

3. Add the two amounts together to give you an estimated value of your DROP benefit at the end of the DROP participation period.

**Example:**

At the DROP participation date the member had an average final salary of \$41,000; 31 years of service; and selects the Maximum Retirement Benefit. The member elects a four-year DROP participation period and estimates that the salary for the next four years will average \$43,500.

1. Monthly retirement benefit:  
 $\$41,000 \times 31 \times .020125 \div 12 =$   
 $\$2,131.57$
2. DROP contribution value including interest:  
 $\$2,131.57 \times 51.98 = \$110,799.00$
3. Member contributions including interest:  
 $\$43,500 \times .2166 = \$9,422.10$
4. Total DROP benefit:  
 $\$110,799.00 + \$9,422.10 = \$120,221.10$